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POLICY OPTIONS PAPER

Controls on Export to the USSR of Oil and Gas Equipment and Technology

Issue: What policy should the United States adopt on controlling oil and gas equipment and technology exports to the Soviet Union? Should the United States treat Soviet oil and gas development and exports to Western Europe as a national security concern?

Approach: The Administration's decision on this issue should take into account:

-- the extent to which we wish to impede Soviet energy development exports;

-- the political costs vis-a-vis our Allies we are willing to pay in pursuit of this policy; and,

-- the extent to which we wish to control export of technology.

In order to make those options that restrict energy exchange with the Soviet Union both effective and equitable, the U.S. should present a substantial incentives package, which will contribute to Allied energy security. Such a package should aim at increasing Alliance access to additional sources of energy and at furthering sustained Alliance cooperation on energy security concerns.

Attachment

Statement of Pros and Cons

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Option I

The U.S. will actively impede Soviet oil and gas production and export projects. The U.S. will impose national security controls on, and deny export licenses for, all oil and gas equipment and technology. We will use our available leverage to pressure our Allies and friends to adopt similarly restrictive measures.

Pro:

(a) Hinders development of a strategically significant industry which is a key component of the Soviet's military-industrial base. Insofar as oil and gas production is an instrument of Soviet domestic and foreign policy, we should actively impede the Soviets' economic strength, political influence and military potential.

(b) Diminishes Soviet ability to earn hard currency through energy exports to the West. Frustrates the Soviets' professed aim to acquire Western technology. Promotes increased competition between the military and civilian sectors.

(c) Discourages European dependence on Soviet natural gas, thereby avoiding a potential weakening of NATO Alliance cohesion.

Con:

(a) Experts disagree on whether, without Allied cooperation, an embargo would have a significant effect on Soviet energy production, and on Soviet ability to pursue major export projects including the Siberian Pipeline.

(b) Would strain U.S. and Allied relations. Europeans would view U.S. action as insensitive to their economic and energy needs. This would contribute to a long-term Soviet objective of driving a wedge between the U.S. and our NATO Allies and Japan.

(c) Hindering Soviet energy development could prompt further Soviet adventurism or efforts to increase their influence in the Middle East.

Option II

The U.S. will attempt to impede Soviet oil and gas production and export projects. Recognizing that our Allies and friends may not follow suit without unacceptably high political costs, we will use less leverage than in Option I. We would consider, after consultations with our Allies, adopting a multilateral approach less restrictive than implied in Option I. Until this is worked out, the U.S. will deny export licenses for technology and equipment.

Pro:

Retains the basic benefits of Option I, but is more flexible and thereby avoids straining relations with Allies.

Con:

Contains same drawbacks as Option I, but additionally may indicate less U.S. resolve to limit Soviet energy developments.

Option III

The U.S. is most concerned about major Soviet projects which contribute to Soviet ~~production capability and our~~ Allies' vulnerability to Soviet energy leverage (e.g., West Siberian Pipeline). The U.S. will make a major effort with other countries to restrict exports of equipment and technology for such projects. Until this is worked out the U.S. will deny all technology and end-use equipment exports for major projects while approving end use equipment exports not for major projects.

Pro:

(a) Would focus U.S. leverage on major projects.

(b) More likely to be accepted by Allies because it is more closely related to Western security concerns.

(c) Offers commercial benefits to U.S. and Allied exporters in areas not of major security concerns.

Con:

(a) Difficult to identify discrete major projects or to prevent diversion of mobile oil/gas equipment. Opportunities for leverage may therefore be limited to those items which are essentially stationary, such as pipe, wellhead assemblies, down hole equipment, and compressors.

(b) Effectiveness would be limited unless Allies agree to restrict comparable sales of technology and equipment to the Soviets. To the extent Allies fail to cooperate, compromises Western security.

(c) Denies possibility to U.S. companies of participating in major Soviet oil and gas related trade opportunities.

Option IV

Rather than attempting to impede oil and gas production and exports, our goal will be to deny exports of technology that allow the Soviets to replicate advanced Western equipment; this technology would give them an independent capability to improve oil and gas output and infrastructure. The U.S. will approve exports of end use equipment.

Pro:

(a) Hinders Soviet energy independence by impeding their efforts to develop technological capabilities. Denying certain critical equipment and expertise in conjunction with our Allies could also retard Soviet oil/gas production, distribution and exports.

(b) Reduces possibility of confrontation with Allies. Would permit continued European purchases of Soviet energy which acts as a hedge against dependence on Middle Eastern oil and gas from less reliable suppliers.

(c) Encourages some Soviet dependence on imports of U.S. equipment and contributes positively to the U.S. balance of payments.

Con:

(a) Increases European reliance on Soviet energy, which, regardless of any safety net, could to some extent make our Allies more vulnerable to Soviet pressure.

(b) To some extent, supports inefficient Soviet civilian sector by giving USSR access to equipment it chooses not to develop, thereby perhaps facilitating resource allocation to the military.

(c) Prevents U.S. companies from competing for some Soviet oil and gas related trade opportunities, and creates incentives for the Soviets to seek U.S. imports.